

## ASSISTANCE TO SMALL-SCALE INDUSTRIES IN KERALA

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The small-scale industries programme of an Indian state was chosen as a research topic because it is a prime example of the many kinds of public projects in poor societies which are justified simultaneously on "welfare" and on "efficiency" grounds. The aim was to discover how decisions about, and within, the programme have been taken, and how the cumulative pattern of these decisions has affected the outcomes of the programme, in both social and economic terms. The project thus related to both the Institute's general interest in income distribution, and PGPAG's specific interest in access to publicly-administered distribution processes. The aim was *not* to make a naive point about any gap which might exist between the ideology surrounding a programme and its actual outcomes, but to discover more about the criteria which politicians and administrators choose to use, or find themselves using, in distributing development resources, and what implications this has for potential recipient groups. It might, however, shed more light on whether the process of ideological justification can remain quite unaffected by, or is forced to take note of, what is actually being produced by a programme as time progresses, and plan period succeeds plan period.

### **The Kerala Small-scale Industries Programme**

The social and equity justifications for the small-scale industries programmes of the Indian states have been several. First, they are supposed to introduce members of under-privileged groups (the unemployed, small agriculturists, even landless labourers) to a reasonable livelihood which would otherwise be unobtainable, and to support existing small manufacturers as against large firms. Secondly, it has been assumed that small industries programmes will help to decentralise industry, so that entrepreneurship, employment and secondary effects are created in hitherto backward areas, thus generating regional and geographical equality.

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But the programme is also represented as the most *efficient* way of investing public resources, on the assumption that the end is a transition from an economy almost entirely dependent on agriculture and cash crops to one which has a solid and expanding industrial base. Small-scale industry is defined for these purposes as modern mechanised manufacturing where the fixed capital investment is less than Rs. 750,000, the assumption being that traditional industry with a low level of mechanisation, such as coir weaving, cashew nut processing and handloomng, is now saturated and stagnant. The efficiency argument rests on the fact that in the first place, the scale of public state funds just is not sufficient to allow for the setting up of more than one or two large-scale plants a year, so that the large-scale sector is virtually left to the central government. Secondly, it is argued that small-scale units get round the problem of scarce managerial talent, and that they are also a way of mobilising small and dispersed private savings which would otherwise remain uninvested.

There was therefore always an inherent tension in the ethos surrounding these programmes; if this activity was so objectively worthwhile, how important was it for the authorities to induce the right (i.e. socially right, and most deserving) individuals to be the agents of its emergence and what was to be done if either such individuals were not forthcoming or if they turned out to be inept in some way, even if they did respond to the opportunities presented.

In terms of concrete measures, the Kerala small industries programme has consisted of two main kinds of activities by the government: first, the building of industrial estates consisting of sheds ready to house new small industries, together with the required infrastructure such as water supplies, power, machine shops and roads, and secondly, the handing out of a range of subsidies in cash and kind to certain small industries, both in states and outside in their "natural" locale. These include grants and loans for capital and working capital, the supply of quotas of cheap scarce raw materials, granting of import licences, and provision of technical advice.

## Research Findings: 1

### History of the programme

The research fell into two halves, each involving rather different kinds of operations. The first task was to find out how decisions about the operation of the programme had been taken and whether, over time, there had been a process of feed-back from one set of decisions to the next set; whether, in other words, decision-makers took note of the outcomes of earlier decisions. The connected question arose of whether such decision-makers actually sought out information about outcomes, or whether this filtered back to them randomly, and how results of various kinds were assigned priority. This could only be tackled by talking to the politicians and administrators at many levels who had been involved in such decisions, and by examining contemporary accounts and reports.

The history of the programme's operation can be followed through the outcomes of two kinds of decisions: first, the lumpy, aggregate or policy decisions, and secondly, the routine, dispersed decisions. Typically, the first kind is taken fairly high up the administrative hierarchy, at widely-spaced time intervals, and involves large parcels of investment resources. The second kind is taken by low level officials from day to day and each involves a relatively small amount of resources. Because the first kind of decision is much more visible and because it involves large resources, the size of which are often publicly known, such decisions are likely to command much more public attention and evaluatory energy than the second kind. Furthermore, because they are physically and chronologically concentrated, their outcome is often much more apparent and easily monitored than that of routine decisions, which are miniscule and dispersed so that it is a far more difficult process to gather and collate information about them. But this distribution of attention and evaluation may be in inverse relation to the actual importance of these relative outcomes. At least the overall outcome of routine decisions is often as important as those of policy ones. The initial attitude seems to have been that small entrepreneurs were potentially universally and randomly distributed. All that was required for them to spring into existence was the provision by the administration of certain kinds of basic resources and services; a kind of catalyst or

mid-wife role. But, gradually, administrators have discovered that entrepreneurship is not recruitment-neutral; some sources, whether social categories or geographical areas, are more productive than others, so that an administrative response has occurred which has fed back onto the access structures themselves. This has been reinforced by the much less intentional or conscious outcomes of routine decisions which have tended to favour certain categories of clients.

From one point of view, this is rational learning behaviour; administrators are quite right to conclude that, given the whole environment and the nature of the resources offered, what they regard as small entrepreneurs are more likely to emerge from some backgrounds than others. It has proved much more difficult to induce the desired response from certain categories of potential client. As far as *recruiting* entrepreneurs is concerned, this has meant the poor, the uneducated and the low caste, and doubly so when these attributes were combined with a rural base. As far as the existing entrepreneurs are concerned, the losers in the distribution process have been almost invariably the smaller and less sophisticated units, and particularly those of a craft or artisan nature, rather than those which started under conditions of routinised, standardised production on the small factory model.

This is an entirely unsurprising outcome, and consistent with results from many other programmes of a comparable nature, such as agricultural extension and community development. The major reason is that inequalities in the possession of other non-controlled resources, ranging through wealth and education, information, contacts and the most intangible assets of confidence and motivation, are almost bound to intrude on the administratively-controlled distribution process, either enabling the advantaged to compete better, or else to make better use of the handouts they receive. The possibility of insulating public distribution systems against this kind of intrusion is extremely problematic, and a crucial dilemma.

Looking specifically at the history of decisions about the estates programme, two features emerge. First, there are certain premises which are never questioned, such as the wisdom of concentrating on

modern small industry as such. Within these rigidities, however, there has been the process of administrative learning over time referred to above. But the “adequate response” to investment which has been sought has been defined very simply as the ability of units to survive. This has meant that in the programme’s own terms the welfare aspect has lost out, as investment has become more spatially concentrated, but also that the kinds of basic efficiency criteria originally appealed to, such as that small industry would be less capital intensive than large-scale industry, have not been translated into operational terms either. What has happened is the concentrating of resources on particular kinds of beneficiary, a process which is only partly explained by debating the issue in terms of economic space.

#### **Phase 1: the search for criteria**

The first round of estates was set up in the mid 1950s, at the end of the First Plan and during the Second. The idea of estates issued directly from the central planning commission, but without any clear specification of what they should be like. With no precedent for this kind of investment, there was a good deal of confusion at the state level about what should be done. The new resources could not be pushed into existing channels.

As administrators now remember this phase, it seems to have been one in which various ideas were hawked around until a set of decisions “emerged”. It was first suggested that there should be only one large estate, and the site suggested was a small village in central Kerala, called Kollakadavu, the main reason for this being that it was the home of a national figure, P.C. Alexander, then All-India Development Commissioner for Small-scale Industries. He took a personal interest as a Keralite, and was not acting in an official capacity as a central adviser. Thereafter, one or two other places were suggested for similar reasons. Finally, the formula emerged, no-one can remember from where, that there should be one estate for each administrative district. It was probably that this was just the simplest egalitarian-seeming solution to local demands. Without any criteria being specified, and without local consultation, the sites selected turned out to be on the edge of medium-sized towns in each district, many being the district headquarters. The two exceptions were one smaller town but this was itself only ten miles from a town

of 55,000 population, and the village of Kollakadavu which was retained. There was no attempt at any kind of feasibility study and no prior canvassing of potential entrepreneurs. The process of planning was remarkably ritual-free at this stage.

During the next few years, the problems were conceived to be only those of getting the estates to materialise physically. Much energy went into designing sheds and pieces of infrastructure such as water tanks. The complaints from within the department were the endemic ones about “co-ordination”: the public works department was accused of delaying the construction work, the electricity board of being dilatory in providing electrical equipment. But there were no qualms about the potential supply of entrepreneurs. The general assumption seems to have been that entrepreneurship was universally latent. In fact, rules of exclusion were devised at this stage.

Recruitment was supposed to be in favour of new entrepreneurs, and to exclude certain non-priority industries, such as jewellery, printing, handicrafts. Technical and advisory institutions were set up, but they were to service the potential entrepreneur, to respond to his initiative.

### **Phase 2: welfare and commercialisation**

In the Third Plan period, two potentially contradictory patterns emerged. On the one hand, the welfare themes were stressed, and a second round of estates was pushed out to smaller and more remote towns and villages. On the other hand, a series of themes about the need to organise and run estates according to “commercial criteria” appeared and was used to justify various decisions. Signs of conflict between the two kinds of criteria began to be evident.

The decision about the location of the new estates seems to have been a cabinet-level one, reinforced by a decision to push the specific decision-making down to low-level local bodies. As department executives now put it, these decisions were the “victim” of the decentralisation vogue. “We were then into the era of panchayati raj and so on. It was becoming an established procedure that projects should be mooted or planned by the district development councils (consisting of technical field officers, district collector and local politicians).”

The department now claims that “vested interests” were entirely responsible for these decisions. In the case of one rural estate I visited, consisting of 19 sheds of which only three are occupied nine years after completion, and which stands in the middle of acres of paddy land, the present additional director now claims that he tried at the time to get the decision reversed, but that the district collector was, by then, too heavily committed to the local member of the legislative assembly who had agreed to recommend a piece of land which a local landlord wanted to dispose of. These sites are all at small towns or villages which have no common features, such as being marketing centres or having agro-products with potential for processing, or any of the characteristics which now form a standard list in the “growth point” literature.

The commercialisation indicators were several. The state government was apparently receiving and handing on messages from the government of India about the need to commercialise the running of the estates. In 1962, their management was handed over to a newly-established state corporation. The justification for this was that the development of small industry “could be better organised by a corporation than by the government department, where rules and procedures delay decisions which will affect the rate of development”. In 1966, rent for sheds began to be charged at an economic, rather than a subsidised, rate, and a hire purchase scheme for the purchase of the sheds was started. The corporation also began to operate in the raw materials market, re-selling to small enterprises on a profit-making basis.

The most interesting decision during the period was one which tried to combine what by then were beginning to be seen as “welfare” and “economic rationality” criteria. This again was a decision taken within the department and concerned an estate which formed part of a Rural Industries Project. Again, this programme originated with the planning commission and it had been justified, even more so than the general estates programme, as a means of promoting industrial decentralisation. The projects were financed by the centre, which stipulated that they should cover a whole district designated as backward. In 1964, the Kerala department of industries set up a state-level advisory committee, with the minister as chairman, to

design such a programme for the district of Alleppey, a coastal district entirely dominated by coconut and paddy cultivation, the declining coir industry and fishing. As a preliminary, a department team undertook a feasibility study, which was supposed to discover what kind of industry should be encouraged.

The report starts with the general statement that “the development of small-scale industry has so far been in or near to cities . . . so in the Third Plan, emphasis has been laid on encouraging the further growth of industries in rural areas and in small towns as well as less developed areas”. It goes on to recommend that “the programme of industries to be developed in a selected area should be based on a careful survey of the needs, resources and possibilities of the area . . . in drawing up the programme, the people of the area . . . should be fully involved and their suggestions taken into account . . . There should be stress on the training of artisans.” The report went on to recommend two kinds of industry, first those based on local materials, such as units producing desiccated coconut, activated charcoal, starch from tapioca, strawboard and polished glass using beach sand. The second group was described as need-based or non-resource based, such as tin-can fabrication, bailing hoops for coir yarn, umbrellas and units making simple chemicals. “A small unit can easily survive only by supplying the colleges and schools of our own state”.

What actually emerged as the main component of the Rural Industries Project was a chemical manufacturing estate consisting of units making relatively sophisticated products, mainly inputs for the pharmaceuticals industry, and placed on the very edge of Alleppey district, so that it was only technically in an underdeveloped district, but in practice entirely geared to the urban complex of Cochin port.

The now second additional director of industries claims that decisions about this estate were taken entirely at the directorate and project level. The starting point was the decision to concentrate on the chemical industry, his own technical specialisation. An important factor was the willingness of an established local businessman, then operating in Bombay, to come back to Kerala to start a pharmaceutical plant with government support. The project



apparently tried to recruit from the district headquarters of Alleppey itself, but since the site was 30 miles distant on the edge of the district, this “came to nothing”. Furthermore, the investigating team “wanted to consult the local people and panchayats, but concluded this was useless because their outlook was restricted and they had no technical expertise”. The main reason for placing the estate so close to Cochin, apart from the availability of skilled labour and the port facilities, was the nearness of a government of India fertilizers and chemicals plant, which could supply inputs.

This marked the beginning of the emergence of a departmental consensus that the urban-ness of an estate's location is vital. There was a strong reaction to the earlier investment pattern and a swing towards what has come to be defended as economic rationality. It is further evidenced by decisions which were taken about the only new estate to be constructed since the Third Plan period, and by the attitude now taken to the rural estates. These estates were formally acknowledged to be failures after the department stayed any further building of sheds in 1967, pending the report of an internal committee on why some estates were not working. By now, it was becoming apparent that there were major problems which could hardly be ignored. In many estates, sheds were standing empty long after they were completed, and no entrepreneurs were forthcoming. In other cases, sheds were allotted but not occupied, or else units appeared and then died very quickly: The 1967 report concluded that, except for six out of the 18 estates (and all these in the larger town sites) all were in an unsatisfactory condition, and that the main reason was that “factors favourable to the functioning of industry were not taken into account in deciding on the location. Also, while the idea of spreading industries to rural areas may look very good as a laudable objective, in actual practice, such small units located in rural areas have to survive very heavy economic odds and in the process, may not survive at all”.

The most recently-founded industrial estate is located on the edge of the Cochin-Ernakulam industrial complex, in the centre of what industrial concentration there is in Kerala. It also differs from earlier estates in not providing standard sheds, but only plots for the units and credit for them to construct their own buildings. The units now

appearing on this site are, typically, relatively sophisticated enterprises owned by men from high-status backgrounds, in caste and occupational terms, and often having themselves had considerable industrial experience in large firms outside Kerala. Many of these men have been specifically invited to come back to Kerala to start units in the estate. As such, they represent the kind of potential source of entrepreneurship which decision-makers have come to recognise as the most responsive and the most worthwhile, and on whom resources are likely to be increasingly concentrated.

### **Research Findings: 2**

The second part of the research consisted of a survey of existing small-scale industries, both inside and outside states, which was intended to provide a picture of the social and economic characteristics of these units. Specifically, it indicates some points about the selective effect of the states programme on the recruitment of small entrepreneurs, and also how the operation of routine allocation decisions has affected the distribution of benefits amongst the whole population of units.

My survey consisted of 70 enterprises, drawn from two city estates and two medium town estates (all, therefore, officially successful), and from two non-estate areas, one being the central area of Ernakulam city, and the other being a small town of 5,000 at a distance of 50 miles from Ernakulam. The 70 units in the sample were a heterogeneous collection. They fall into eight industry categories, the two largest being rubber products and metal goods, followed by light engineering, chemicals, wood products; plastics, a group made up of food products, garments and leather, and another miscellaneous or residual-group, including glass, ceramics, candles and cardboard boxes. All these groups were represented in both estate and non-estate samples, and only rubber was markedly over-represented in the former group, and this because one of the estates happened to be a rubber-specialised one.

The most striking characteristic of the sample was its range in the size and sophistication of the units. I classified them into three groups, based on the organisation-technology stereotypes of "artisan-simple", "workshop" and "factory". In the first category I

placed all the units using only hand-tools or in which, if power was used, it was still the worker who applied the power-driven mechanism to the work-in-progress, as with an electric sewing machine or saw. In this kind of unit, typically there is no division of labour, so that expansion lies along the path of replication, of installing another man with his tools or machine. The factory is the type at the other end of the sophistication spectrum. The machinery is more complex and usually involves the co-operation of several workers. There is division of labour, and the managerial function begins to be marked off as an office-job, rather than as a production-supervisory one. There is also a separating out of skill-levels, the main machine workers working at a low skill-level as adjuncts to the machine, and production is regular and routinised, with the pace set basically by the machine.

The workshop is an intermediate category. It involves some division of labour and more complex machinery than the artisan unit, but the production is generally non-routinised. Often there is a service element, since repairs as well as manufacturing are carried out. Many of the light engineering units fell into this category, and also units manufacturing by a batch or recipe method, such as some of those making paint, ink or tiles.

The three types of unit show quite markedly different characteristics, both in terms of the social background and career experience of the entrepreneurs, and in terms of the operational features of the enterprise. There were no high caste Hindus amongst the artisan-simple entrepreneurs, but 35 per cent of the workshop group fell into this category, and 37 per cent in the factory group. Of this latter group, 18 per cent were Brahmins, a much higher representation than their percentage in the population. Only one of the entrepreneurs from the artisan-simple group was a graduate, but 43 per cent of the workshop group and 62 per cent of the factory group were. It is also striking that the overwhelming majority of the factory entrepreneurs have one or both of two characteristics; either they come from large land-owning families (41 per cent) or they have had careers in large industry outside the state (34 per cent) and come from entrepreneurial, professional or civil service backgrounds. A further 19 per cent of the group had both these characteristics but

only six per cent had neither. A relatively high proportion of the workshop group (70 per cent) had one of these characteristics, but the land-owners constituted a smaller percentage (24 per cent) and the industrial career men a correspondingly high percentage.

As far as the enterprises were concerned, there were clear differences in the supply and marketing catchment areas of the three groups. Only two out of 14 of the artisan group were buying more than 10 per cent of their materials outside the state, and most were buying all in the local town. Nine out of 21 of the workshop group were buying more than 50 per cent outside the state, as were 18 out of 35 of the factory group. As for marketing area, 69 per cent of the artisan group were selling more than 75 per cent of their output in the same town and none was selling outside the state; of the workshop group, 19 per cent were selling more than 50 per cent of their output outside the state, whilst for the factory group this percentage was 53.

The artisan unit, therefore, is typically very locally-oriented and its owner is from a low-status social group and usually of artisan or petty trade background, whilst the factory unit is typically operating within extensive supply and marketing networks, and is typically owned by a cosmopolitan-type entrepreneur who comes either from outside the estate, has had industrial career experience outside the state, or who comes from a landed background, whilst the workshop entrepreneurs and units share these characteristics, but to a lesser extent.

Whilst all these types of units are found operating successfully in both urban and small town non-estate settings, the estates in both locations are clearly drawing predominantly on the factory category. This category is markedly over-represented in the estate group as compared with the non-estate group, accounting for 76 per cent of the units, as against only 25 per cent in the non-estate group. The workshop group is under-represented (24 per cent as against 29 per cent) and the artisan-simple group highly under-represented (two per cent as against 46 per cent).

Insofar, therefore, as the successful estate units display the features of high-prestige entrepreneurial recruitment, relative technical

sophistication and extended trading networks, they do so because they are representative of a general conjunction of these characteristics in the population of small enterprises, and not specifically because of their location in estates. But it seems to be true that the existence of the estates has produced an increase in the numbers of this kind of unit functioning in Kerala, since many of these entrepreneurs said they had come back to Kerala and started units only because they had heard of the estates, or been specifically invited into them. Because there are proportionately more factory units in the estates it is also true that there are proportionately more large units inside the estates than outside them since size is related to technology level. The average employment of estate units is 29 against 21 for non-estate units and, taking the current replacement value of fixed capital plus one month's working capital, and taking the dividing-line at Rs 100,000, the distribution of sample units is as follows:

	ESTATE		NON-ESTATE	
	URBAN	SMALL TOWN	URBAN	SMALL TOWN
LARGE	67% (12)	70% (16)	20% (4)	44% (4)
SMALL	33% (6)	30% (7)	80% (16)	56% (5)

It is clear from these indicators that the estates are not recruiting entrepreneurs from amongst low-status social groups. They are providing an arena for the growth of a new entrepreneurial class, owing typically relatively large and sophisticated units, and drawn from landed interests and professional groups, which is also developing outside the estates.

There remains the question of why the unsuccessful rural estates did not show a similar pattern. The first question is, why have the larger factory and workshop units which have survived in the successful estates not been attracted to the more remote areas?

The obvious answer to this, and the conclusion reached by administrators, is that they are deterred by the economic costs involved. But, in practice, this is difficult to substantiate. In the first

place, as mentioned above, most of the units in the factory category buy a large proportion of their materials outside the state. A substantial proportion of these are heavy materials, particularly metal, for which virtually all the units use road transport. When these materials are coming from Madras, Bombay or Calcutta, what matters in cost terms, is not whether the site is urban or not, but how near it is to the state border. (Kerala has a road network of much higher standard than most states). In any case, any extra transport cost would almost always be outweighed by other savings. For example, there is a difference of 14 per cent between the average skilled wage rates paid in city and small-town units. And yet, most entrepreneurs in the medium-town and urban estates were convinced that there would be cost factors involved, though they could not substantiate this. They also suggest that there are less quantifiable costs involved, such as that rural labour is "less committed". But in the large units which were operating in the small town in my sample, if this was true it was offset by the ability to hire a larger proportion of the labour force on a casual basis, an arrangement which is less possible in the city because labour is more organised. It is also not a question of basic infrastructure, since this is provided in rural estates.

It seems that the preferences of these units for medium town or city estates are based on a range of non-purely-economic factors, such as the availability of services such as good eating facilities, higher-level consumption-good markets and, perhaps most of all, being able to visit associates and friends and government officials without having to travel, and being able to tap various unpredictable information networks, in particular news about the black market availability of raw materials, the importance of which will be referred to again below. The kinds of men who start factory-type units are usually urban-biased for a range of not-purely-economic reasons. The landed entrepreneur, on the other hand, is biased in favour of the medium-sized market town which is the traditional centre of his social and economic life or, if he operates from a rural area, he is likely to do so from his own estate or compound, since he will often also be performing a land-management function.

Of course it would be ridiculous to argue that the "pure cost" aspects of location are irrelevant to the functioning of industrial

enterprises, and even to small-scale units such as these. There are many operational factors which may be related to space-as-transport-cost, in the specific sense of distance from urban centres. Much will depend on the particular sources of raw materials, kinds of transport used, location of rail-heads, availability of and demand for skilled labour, degree of urban-rural variation in wage-rates, location and dispersion of markets, and all the other factors considered relevant in classical location theory. All that is being claimed here is that, in this particular case, these factors are not sufficient, nor even predominantly influential in determining the urban-location preference of certain groups of entrepreneurs. The theme about the economic rationality of urban locations masks the fact that decision-makers have learned to structure access by responding to the non-purely-economically determined preferences of certain categories of clients. In doing so, they may be furthering the incentive and efficiency aspects of the programme and undermining its welfare potential. Also they are effectively accepting that administratively-controlled distribution, far from countering the effects of market inequalities, may only end up responding to, and even reinforcing, the inequalities in the stocks of assets already possessed by its potential clients and outside its sphere of intervention.

The competitive disadvantage of the client who lacks resources of contacts and wealth is obvious again and again in the distribution process. To take the case of credit, my sample shows that the larger and the more sophisticated the unit, the greater its chance of getting credit and getting it at a favourable rate. Quite apart from the fact that these entrepreneurs can often call on family wealth derived from land or on personal savings accumulated over a career of high-salaried employment, they also have better access to credit institutions. The best rate is to be obtained from the special institution set up for the purpose, the Kerala Financial Corporation. But this was universally reported (a) to be only interested in providing large loans, and (b) to demand an unofficial "commission" of 10 to 15 per cent, much higher than the banks. Furthermore, it has only two offices in Kerala, so that it is a major effort to use it, and it is also reported to be much slower in processing applications. The smaller the unit, the more likely it is to go to a bank rather than the KFC, or to a dealer

rather than to a bank, each of these options involving progressively higher interest rates.

Where there are several access points to a distributed service, there is again scope for disproportionate advantage on the part of the best-endowed competitors. For example, again in the case of steel, the optimal method for a small unit is to acquire a licence from the controller of imports and exports to import the material directly. One small factory in Kerala, owned by a Maharashtrian, which was importing tin-plate directly from Swansea was paying only 60 per cent (landed cost) of the official price for comparable indigenous steel. Needless to say, licences to import are not resources which small units are likely to obtain. In some cases, where clients can qualify at several equally advantageous access points, they again have the advantage. For example, when the department of industries' supply of cement ran out because of local strikes, a unit making tiles, one of whose partners was an architect, managed to acquire a supply through the public works department's allocation, a stock which was intended only for public projects. To acquire a contract to supply a government department with manufactured goods, such as equipment to the electricity board, is another way of helping to ensure access to scarce materials. The ability to manipulate several access points gives a client a general flexibility of manoeuvre and therefore a greater chance of overcoming scarcities.

Finally, in the case where a good is only partially controlled by administrative allocation, it may be possible for some consumers to capitalise on the very fact that there is a co-existing market distribution by acting as a recipient in one sphere and as a distributor or seller in the other. This is particularly true of scarce materials. Despite the fact that virtually the whole distribution of steel is supposed to be by public allocation at fixed prices, the *major* source of supply for small industries is the ordinary market which is in fact the black market, since it consists entirely of steel which has leaked from official channels through the re-sale of quotas, a process largely controlled by middle-men who are small-time dealers. This re-selling is often by bogus or part-time units which have no real intention to manufacture, but it may involve full-time manufacturers who actually find this the most profitable course. The non-Keralite and



cosmopolitan entrepreneurs are conspicuously more successful at this kind of operation. A unit making barbed wire and run by a Punjabi, for example, was selling off its total allocation of steel wire which it received directly from Hindustan Steel in Calcutta (units can indent directly with the steel procurers) at a profit of 30 per cent in the black market in Kerala. The wire they used for manufacturing was bought on the black market in Calcutta at only about 10 per cent above the official price, so that their net profit, even before manufacture, was a good 10 per cent allowing for transport costs. In this case, the unit benefited from being able to operate in two separated black markets, as well as in the fixed price distribution, and this of course was a function mostly of "contacts", that most useful of resources.

Of course, the whole range of unequally possessed assets external to the public distribution process can affect not only the competition for access, but also the use made of the benefits received. The most important of these is education and career experience, possessed by the category of entrepreneurs here labelled as cosmopolitans. These are the keys to the working assets of know-how, information, influence, contacts, which in many ways are more important than wealth, though the two are associated. This is particularly the case in a peripheral state such as Kerala where in the industrial sector, so much depends on the ability to gain access to technology, collaboration, materials and markets, which are often most available at the extra-state level. Success in manufacturing depends largely, not on the ability to take risks, but on the ability either to avoid them or to insure against them by creating a wide network of options and a stock of contingency resources, whether these are preferences in materials markets of a straight or black-market nature, contacts with the police which will help in dealing with strikes (or alternatively, with the unions as a preventive device; many manufacturers give donations to all the relevant unions), or influence with the electricity board for avoiding crucial local power interruptions or getting prompt repairs to equipment.

These advantages work in favour of the larger and higher-status entrepreneurs, and against the less wealthy, lower class and low caste ones. It is a problem which has much to do with the way routine

public allocations work, and the inability of these processes to overcome other kinds of inequalities amongst clients. It is a problem which the juggling of estate locations can do little to remedy, since such units at present have a high turnover rate wherever located, because of their exposure to a range of risk factors they cannot insure against. The small and particularly the artisan-simple units in my sample were clearly only the tip of an iceberg of many such units which are constantly appearing and disappearing. For example, although my urban non-estate sample-frame was supposed to consist only of units known to be functioning, I had to replace eight out of the 20 selected, and all small units. These are basically subsistence units. In half of my sample group of artisan units, the income accruing to the proprietor did not exceed the wage he was paying his senior worker, and, in the others the difference was marginal. Such units are very vulnerable to crises, and such a situation may have to be met by disinvestment. Such units would require very specific kinds of support, most obviously non-security based loans for working capital or guaranteed outlets for products, which they are not at the moment receiving.

### **Overall Distributional Implications of the Programme**

The small industry programme, then, is not generally dispersing small enterprises to rural areas, nor is it recruiting successful entrepreneurs from low-status backgrounds. Here, there are some points to be made about the differences in distributional effect as between urban (city) and medium town estates. The latter are clearly recruiting entrepreneurs quite heavily from amongst the landed families and plantation owners. Sixteen per cent of these entrepreneurs were minor land-holders (between three and 15 acres, which is enough to yield a substantial income) as against 11 per cent in the urban estate group, but no less than 63 per cent were major land-holders, as against 28 per cent in the urban group. Some of the estates, most rubber, tea or cardamom, are in the range of 1,000 to 1,5000 acres and some of these families have already expanded into trade and agro-processing. One family partnership in a rubber goods unit, for example, already controls 45 cashew factories, a car-repairing unit, two grape estates, a brewery, a rubber plantation and two contracting businesses, as well as substantial holdings of paddy and

coconut land. Several of these units are run by non-managing partnerships, the equivalent of absentee landlords in agriculture.

The urban estates, on the other hand, are recruiting much more heavily from amongst the cosmopolitan group (66 per cent of entrepreneurs as against 26 per cent in the medium-town estates).

Three out of 18 in this category in the urban estates were non-Keralites who had emigrated from the north, whilst the rest were Keralites who had returned to Kerala in mid-career. Sometimes this represents a carefully-planned career pattern, and the nature of the enterprises these men start is most often determined by their own industrial experience.

Insofar, therefore, as class groupings are being affected by the growth of small industry in Kerala, it seems that new mobility channels are being created more significantly at the higher than at the lower levels of the class structure. There is some mobility on the part of low-caste Hindus from non-professional and non-landed parental background into ownership of workshop-type units via the educational process, as engineering courses have expanded rapidly over the last five years. This is likely to continue as the market for engineering graduates becomes over-supplied. But the prominence of plantation interests amongst successful entrepreneurs represents a reinforcing of the economic power of an agrarian capitalist class, now experiencing a narrowing of the opportunity to invest in land, partly because of increasing pressure on land and partly because of the land reforms, despite their limited impact. The cosmopolitans, on the other hand, are drawn almost exclusively from the high-caste groups who might also be land-owners, but who previously went mostly into the professions, government service or extra-state managerial jobs, and who will now become in greater numbers small capitalists rather than high salaried employees.

In terms of the original claims made for the small industry programme, the distributional effects have been somewhat narrow and concentrated, particularly as the department of industries has had to concentrate on "making estates work". On the part of the bodies whose job is ostensibly to evaluate these outcomes, one finds a continuing janus-like ambivalence. For example, a report produced

this year by the Kerala Planning Board makes the initial “efficiency-type” statement that “if the units are to develop as an integral part of the economy, it is necessary that they should provide employment at the minimal capital cost and at the same time generate an economic surplus to pave the way for self-sustained growth”. However, after noting the extent of public investment and the low rental return, it remarks that “no attempt is made to assess the rate of return in financial terms, since consideration of financial profitability is not very relevant.” In its conclusion, it states that “in view of the paucity of relevant data, a cost-benefit analysis is not attempted at present,” but goes on to assert, without evidence, that “this evaluation study reveals that the programme has by and large contributed to the growth of new industrial enterprises and to the dispersal of industries in the remote and comparatively less developed areas of the state . . . although the quantum of employment generated was not of much significance, it has opened up direct and indirect employment opportunities to many, and eased in a small measure the pressure on land”.

In other words, where the quantifiable data is unimpressive, on efficiency criteria, a variety of unquantifiable, and mostly welfare, outcomes is appealed to. This kind of report is unhelpful in terms of policy-implications. What it does do is to provide justification for any decision which might be taken, since the decision-maker is free to add his own weights to the unquantifiable factors. If it were really to argue for a primary emphasis on promotional or welfare factors in *defiance* of efficiency ones, then it would have to acknowledge the cost to be met (in terms of heavy subsidies, free credit or whatever). Or if it were to conclude that the supposed welfare objectives are mostly unattainable within this kind of programme, then that also would have to be said. In the absence of either of these approaches being adopted, those in charge of the programme will no doubt go on taking the kind of pragmatic decision which continues to pay tribute to increased equality as an object of policy, but actually, if anything, in practice works against such an end.

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